



Department of Energy

Washington, DC 20585

MAY 26 2005

MEMORANDUM FOR DISTRIBUTION

FROM:

[Signature]
SUSAN J. GRANT

DIRECTOR, OFFICE OF MANAGEMENT, BUDGET
AND EVALUATION/CHIEF FINANCIAL OFFICER

SUBJECT:

FY 2005 Performance and Accountability
Reporting Guidance and Requirements

The purpose of this memorandum is to establish reporting requirements for the FY 2005 Performance and Accountability Report (PAR). The PAR streamlines and consolidates multiple statutory reporting requirements, including the reporting of performance results, audited financial statements and the status of management controls.

This memorandum provides overall guidance on organizational responsibilities for input to the PAR. Detailed reporting instructions are available to your staff at the following website: www.mbe.doe.gov/progliaison/PAR.htm.

As in FY 2004, the Office of Management and Budget (OMB) has established an aggressive November 15, 2005, deadline for submission of the final PAR. Meeting this deadline will require adhering to established departmental due dates and expediting your review of materials as requested throughout the year. A listing of due dates for major deliverables is attached.

To meet OMB's deadline, we must have high quality and complete input for the third quarter draft PAR to be issued on August 31, 2005. This should reflect the final presentation of all information for FY 2005 and, as such, the only changes anticipated after issuance of the third quarter draft will be those related to:

- updating performance and financial information to reflect final year-end numbers and results,
- significant changes to correct any factual inaccuracies, and
- OMB and auditor requested changes.

Any requested change to PAR information after issuance of the third quarter draft must be approved and submitted by the head of the cognizant Headquarters element. Changes from staff contacts will not be accepted. Also, it is important to note that the PAR auditors will be basing much of their audit work on third quarter information.



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While we made great progress in FY 2004, which earned us the Association of Government Accountants' (AGA) Certificate of Excellence in Accountability Reporting, a recurring theme in AGA's comments was the need to provide more outcome oriented performance information that clearly demonstrates benefits to the public and directly supports accomplishment of our goals. As such, we will be modifying Joule commentary requirements and providing greater focus on related information in the PAR. In addition, all Headquarters offices are encouraged to participate in the performance measurement and internal control training sponsored by the Office of Program Analysis and Evaluation to ensure that all requirements are met.

If you have any questions regarding this guidance, please direct them to Mr. John Newell, Director, Office of Program Liaison and Financial Analysis, at 301-903-2551.

Attachment

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Under Secretary for Energy, Science and Environment
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Assistant Secretary for Congressional and Intergovernmental Affairs
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Chief Information Officer
Administrator, Energy Information Administration
General Counsel
Inspector General
Director, Office of Civilian Radioactive Waste Management
Director, Office of Nuclear Energy, Science and Technology
Director, Office of Science
Director, Office of Legacy Management
Director, Office of Counterintelligence
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Director, Office of Budget and Financial Management, FE-3
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Associate Director, Office of Resource Management, NE-10
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Director, Office of Program Management & Administration, RW-50
Director, Office of Legacy Management, LM-1
Director, Office of Records and Business Management, IM-10
Associate Administrator, Office of Management and Administration, NA-60

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Chicago Operations Office	Idaho Operations Office
Oak Ridge Operations Office	Richland Operations Office
Savannah River Operations Office	Golden Field Office
Ohio Field Office	Pittsburgh Naval Reactors Office
Schenectady Naval Reactors Office	Strategic Petroleum Reserve Project Office
National Energy Technology Laboratory	Southeastern Power Administration
Southwestern Power Administration	Western Area Power Administration
Office of River Protection	Energy Finance and Accounting Service Center
Director, Office of Field Financial Management, NNSA	Consolidated Business Center

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Larry Cain, EA-1	Carol Warner, NE-10
Jon Mathis, PI-10	Sherri Bishop, SP-1.2
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Glenn Podonsky, SP-1
Michael Cunningham, NA-30
Carrie Williams, NA-20

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Distribution to Contacts will be
made electronically by ME-20

U.S. Department of Energy

**Performance and Accountability Reporting Guidance and Requirements
FY 2005**

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DUE DATES FOR MAJOR DELIVERABLES
2005 PERFORMANCE AND ACCOUNTABILITY REPORT (PAR)

<u>Deliverable</u>	<u>Due Date</u>
Reporting Dates	
Third Quarter Draft	August 31, 2005
Program/Office of Management and Budget (OMB) Draft	October 20, 2005
Auditor's Final Draft	November 1, 2005
Final Secretarial Draft	November 9, 2005
Final Report to OMB	November 15, 2005
Research and Development Data	
Headquarters (HQ) Elements and Bonneville Power Administration submit Research & Development information	June 17, 2005
Status of Management Controls	
Selected HQ Elements provide third quarter updates of significant issue summaries	July 15, 2005
Heads of Field Elements report to Lead Program Secretarial Officers (copies to Cognizant Secretarial Officers)	August 15, 2005
Heads of HQ Elements, including NNSA, report to Secretary	September 9, 2005

DUE DATES FOR MAJOR DELIVERABLES
2005 PERFORMANCE AND ACCOUNTABILITY REPORT (PAR)
(continued)

Performance Results

HQ Elements report third quarter results achieved on goals and measures in performance plan	July 15, 2005
HQ Elements report final results achieved on goals and measures in performance plan	October 13, 2005

Management Representation Letters

Heads of Field Elements report to Lead Program Secretarial Officers and DOE Chief Financial Officer (copies to Cognizant Secretarial Officers)	October 14, 2005
Headquarters Management Representation Letters to the Director, Office of Management, Budget and Evaluation/Chief Financial Officer	October 27, 2005

FY 2005 PERFORMANCE REPORTING GUIDANCE

(Headquarters Organizations Only)

Introduction:

The Government Performance and Results Act of 1993 (GPRA) requires that the Department establish annual performance goals and then report the actual results achieved towards those goals. The Joule performance monitoring and reporting system contains the complete set of revised final goals and measures for fiscal year (FY) 2005. The program goals are arranged by strategic plan goals, which identify the resources and offices that are held accountable for results.

Your office must report on the status of your organization's FY 2005 performance measures four times during Fiscal Year 2005: first quarter results for October 1, 2004 through December 31, 2004 (by January 30, 2005), second quarter results for January 1, 2005 through March 31, 2005 (by April 15, 2005), third quarter results for April 1, 2005 through June 30, 2005 (by July 15, 2005), and annual results (October 1, 2004 through September 30, 2005) by October 15, 2005. Identical to the FY 2004 Performance and Accountability Report (PAR) schedule, the schedule for the FY 2005 PAR is compressed including the delivery of a ready-for-publication final draft PAR to the auditors on November 1, 2005.

As was done for the FY 2004 PAR, the auditors will again use third quarter data to begin their review. Therefore, offices must ensure that both the third quarter and year-end information provided is accurate, complete, and that adequate supporting documentation is both identified and readily available. All performance results submitted must have your organization's senior leadership approval. In addition, you must maintain appropriate documentation on the sources of data and information that forms the basis for your office's report on performance results, and make this documentation available for audit on request. The Management Representation Letter that will be prepared as part of the FY 2005 audit includes an assertion by your Secretarial Officer concerning the integrity of the data.

Quality Standards for Reporting:

The overall quality of Department-wide performance measure reporting has, for several years, been identified as a Reportable Condition. This reportable condition on performance measurement was removed in FY 2004. While the Department has made significant progress to date, continued emphasis on accuracy, timeliness, and completeness is essential. In addition, it is crucial that the input into the Joule system does not contain the following:

1. Unclear, jargon-laden measures that do not support agency objectives.
2. Performance assessments that are inconsistent with actual performance.
3. Insufficient explanations for shortfalls in performance.
4. Performance results that are not accurate and valid.

This will eliminate the need to rework submissions under a constrained time-frame and will ensure that the third quarter results accurately reflect the performance of the programs when reviewed by the auditors.

The fourth quarter results and the Commentary and Plan of Action information in Joule will be the fundamental input for the Department's performance in FY 2005. The Commentary must be in plain language and state precisely what was accomplished relative to the annual performance target and how this performance is critical to reaching the program goal. The Commentary should be brief (about 40-50 words). The use of acronyms is strongly discouraged; however, if the use of an acronym cannot be avoided, then it must be spelled out with its first usage. Statements should be specific and reaffirm what was accomplished by repeating the words in the statement of the target when appropriate.

In the event that performance results cannot be determined by the reporting date because the data collection, analysis or supporting documentation is not complete, it is necessary to identify these items as "undetermined results" with an assessment (color coding) of "Red" in the Joule system. The Commentary must include a statement as to why the results are undetermined and when they are scheduled to be reported.

Accessing Joule:

The Joule system is a web-based performance reporting system for the Department's annual performance goals and measures contained in the Annual Performance Plan. Designated individuals within the Department's program offices have been provided with access privileges and training on entering and validating performance information in Joule. The Joule System Administrator, Lynette Walker, can be reached at (202) 586-2019 for additional information about accessing Joule. The URL address for Joule is <http://www.joule.doe.gov/>.

The Office of Program Analysis and Evaluation (PA&E) is available to answer questions and assist you in preparing your submissions. If you require assistance, please contact one of the following:

Name	Area / Office Supported	Phone
Lynette Walker	Joule System Admin., CIO, ME	(202) 586-2019
Michael Scott	PAR, NE	(202) 586-6289
Aileen Alex	NNSA	(202) 586-4255
Kevin Shaw	SC	(202) 586-5068
Sal Golub	RW	(202) 586-4043
Mel Frank	EM, EE, LM	(202) 586-5519
Kelly Greene	EH, SSA, OE	(202) 586-8303
Marilyn Khan	EIA, other staff offices	(202) 586-2233
Bill Kennedy	FE	(202) 586-0423

REPORTING ON THE STATUS OF MANAGEMENT CONTROLS

(Field and Headquarters Reporting Elements, including the National Nuclear Security Administration)

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) and related Office of Management and Budget (OMB) guidance require the Department to establish and maintain a management control program and to report annually on management controls to the President and Congress. Attachment C-3 lists those Departmental Elements, including NNSA, subject to the management control program. This attachment supersedes Attachment 1 of DOE O 413.1A, *Management Control Program*.

To support Departmental reporting, Heads of Departmental Elements, including the National Nuclear Security Administration (NNSA), are required to report on the status of their organizations' management controls, including reportable problems identified and progress made in correcting prior reportable problems. The report must cover the management controls in place for all programs and administrative functions under his or her cognizance. It is the responsibility of each organization to ensure that its report covers all activities within the organization's purview, including the cross-cutting areas of (1) environmental management, (2) nuclear safety management, and (3) non-nuclear safety management. As in the past, the Heads of Field Elements are required to report to the respective Lead Program Secretarial Officer, with official copies simultaneously provided to the Cognizant Secretarial Officer(s). Heads of Headquarters Elements and NNSA report to the Secretary, and if applicable, through the appropriate Under Secretary. The report should be based on the results of existing reviews and day-to-day knowledge of the organization's operations. Because significant realignments and cutback activities increase the risk that deviations from established policy will occur, special consideration should be given to the impact these have on management controls. The report is also required to consider the following:

1. Department of Energy (DOE) Order 413.1A, *Management Control Program*.
Available electronically at <http://www.mbe.doe.gov/progliaison/DOEO4131a.pdf>

The Order contains requirements for reporting annually on the status of management controls and for conducting Summary Management Reviews and Summary Financial Management System Reviews for organizations with financial management systems.

2. The Department of Energy FY 2004 Performance and Accountability Report.
Available electronically at <http://www.mbe.doe.gov/progliaison/DOE04par.pdf>

The Secretary's FMFIA Report to the President and Congress was integrated into the Department's FY 2004 Performance and Accountability Report. The FY 2004 Performance and Accountability Report identified the most serious problems

facing DOE as Significant Issues (previously referred to as Departmental Challenges) under the FMFIA program and described actions taken and remaining to remove the deficiencies. Significant Issues were reported in the following nine areas: Environmental Cleanup, Nuclear Waste Disposal, Information Technology Management, Oversight of Contractors, Security, Project Management, Human Capital Management, Safety and Health, and Stockpile Stewardship. Each office should review the FY 2004 Performance and Accountability Report and ensure that careful consideration is given to evaluating controls related to the nine Significant Issues. In addition, offices with responsibility for correcting the Significant Issues should provide an updated status of actions taken and planned and determine if additional action steps are appropriate. Action plans for FY 2004 Significant Issues are available electronically at <http://www.mbe.doe.gov/progliaison/FMFIA.htm>. Specific actions that are planned for completion in FY 2005 are also included as actions in the FY 2006 Annual Performance Plan.

3. Inspector General (IG) Memorandum on IG Audit Reports and Chief Financial Officer (CFO) Memorandum on General Accounting Office (GAO) Audit Reports. These two memoranda are to be issued annually by May 31st to provide information on the IG and GAO audit reports that have been issued during the year. The contact for the Inspector General memorandum is Leon Hutton at 202-586-5798. The contact for the CFO memorandum is Merley Lewis at 202-586-3469. These IG and GAO audit reports should be carefully considered when preparing your report. Any areas that are the subject of significant adverse audit coverage should be included in your assurance memorandum.
4. Audit of the Department of Energy's FY 2004 Consolidated Financial Statements. Last year, the IG contracted with the accounting firm of KPMG LLP to conduct the audit of the Department's consolidated financial statements. Careful consideration should be given to findings issued at both the Departmental and local levels as a result of the FY 2004 audit. At the Departmental level, the auditors identified one reportable condition in the Department's system of internal controls related to unclassified network and information systems security. In addition, the auditors identified a number of conditions that they did not consider to be reportable at the Departmental level. These were communicated to the appropriate Heads of Field Elements in separate management-level reports. Although the audit recommendations made in the management-level reports were not considered "reportable" for the Department, they are designed to strengthen internal controls and improve operating efficiencies. Therefore, if a management-level report was issued to your organization, these conditions should warrant the same consideration as reportable conditions identified at the Departmental level for purposes of preparing your assurance memorandum. The KPMG audit report can be found on page 372 of the Financial Results section of the Department of Energy FY 2004 Performance and Accountability Report.

Reports submitted by Field Elements should reflect the status of management controls as of the date of signature. Year-end reports from Heads of Field Elements are to be submitted by August 15, 2005. Reports from Headquarters, including NNSA, cover Headquarters operations, summarize any Field issues that should be reported to the Secretary, and are due by September 9, 2005. Headquarters reports should reflect the status of management controls as of the date of signature.

Specific reporting instructions to be utilized in the preparation and submission of the year-end reports follow. Attachment C-1 includes process instructions to be used, and Attachment C-2 includes financial management system requirements that Departmental Elements with financial management systems or system components are to use when conducting a Summary Financial Management System Review.

Any questions on these instructions should be directed to Mindy Bledsoe, Program Liaison and Financial Analysis, on 301-903-2553.

2005 MANAGEMENT CONTROL PROGRAM REPORT INSTRUCTIONS

1. 3rd QUARTER DRAFT OF THE PERFORMANCE AND ACCOUNTABILITY REPORT (PAR)

Headquarters organizations responsible for Departmental Significant Issues should provide updates to the “Planned Critical Milestones,” “Progress Status,” and “Proposed Closure Date” sections of final FY 2004 significant issue action plans. Updates should also be made for the “Actions Taken and Remaining” and “Expected Completion” sections of the executive summary table, if applicable. (Electronic files available at <http://www.mbe.doe.gov/progliaison/FMFIA.htm> .) This information will be included as part of the 3rd Quarter draft of the PAR. Updates must reflect information as of June 30, 2005 and must be provided via e-mail to Beverly.Pershing@hq.doe.gov by July 15, 2005.

2. YEAR-END REPORT PROCESS INSTRUCTIONS

- a. Heads of Field Elements should submit assurance reports covering their program and administrative functions, financial management systems or system components, and the activities of Site/Facility Management Contractors (e.g., management and operating contractors, management and integrating contractors, and environmental restoration management contractors), if applicable. It is ultimately the responsibility of the Head of the Field Element to assure that site/facility management contractors under their purview are performing duties for the Department consistent with applicable laws and have sufficient management controls in place to safeguard government resources against waste, loss and unauthorized use. Site/facility management contractors are not required to perform summary management reviews or summary financial management system reviews in order to provide the necessary assurance; however, these site/facility management contractors should rely on existing internal and external reviews and day-to-day knowledge in order to provide assurances to the respective Head of Field Element. It is paramount that Field Elements receive assurances from all site/facility management contractors in order to adequately provide reasonable assurance that management controls are operating efficiently and effectively for their site.

Operations and Field Office reports are to be addressed to the Lead Program Secretarial Officer with official copies provided to the Cognizant Secretarial Officer(s). Power Marketing Administration reports are to be addressed to the Secretary. Heads of Field Elements assurance memoranda are due

August 15, 2005 and should reflect the status of management controls as of the date of signature.

- b. Heads of Headquarters Elements and NNSA submit assurance memoranda covering their programs and administrative functions and, if applicable, summarizing Field and/or Headquarters reportable problems at the overall Departmental level (for example, the Assistant Secretary for Environmental Management summarizes all environmental compliance problems for the Department). Those Headquarters organizations responsible for a financial management system or system component must also summarize the results of the summary financial management system review(s) (see Attachment C-2 and DOE Order 413.1A, Chapter IV). In addition, Headquarters Elements are requested to update the action plans for the Significant Issues that are located at <http://www.mbe.doe.gov/progliaison/FMFIA.htm> . Headquarters reports are to be addressed to the Secretary through the appropriate Under Secretary. NNSA and Headquarters assurance memoranda are due September 9, 2005 and should reflect the status of management controls as of the date of signature.
 - c. Both Field and Headquarters Elements, including NNSA, are required to simultaneously submit two hard copies of the year-end report to the Department of Energy CFO, ME-100, Rm C-176, Germantown, and an electronic copy, in Word, provided by email to Beverly.Pershing@hq.doe.gov.
3. ASSURANCE MEMORANDUM FORMAT The report format is provided in DOE Order 413.1A and consists of the following components.
- a. Memorandum. Executive level memorandum summarizing the results of evaluations conducted on the organization's management controls and financial management system, if applicable.
 - b. Index and Crosswalk for Action Plans. A cover sheet providing an index and crosswalk for action plans submitted is required with the annual assurance memorandum.
 - c. Action Plans. Action plans are required for all reportable problems and nonconformances identified in the assurance memorandum. The action plan instructions contained in DOE Order 413.1A, Chapter V, shall be adhered to.
 - d. Departmental Action Plans. Each FY 2004 Significant Issue (previously called Departmental Challenge) has a corresponding action plan including assignment of responsible program manager(s) and the office and person responsible for each critical milestone. The corrective action plan for each FY 2004 Significant Issue is located at <http://www.mbe.doe.gov/progliaison/FMFIA.htm> . Action plans and critical milestones related to your organization's Significant Issue(s)

should be updated and included in the index and crosswalk of the assurance memorandum submission.

FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS

Departmental Elements with financial management systems or system components included in the Department of Energy Financial Management System Inventory are required to conduct Summary Financial Management System Reviews annually. Information on the Department of Energy Financial Management System Inventory and the Summary Financial Management System Reviews is contained in DOE O 413.1A, Chapter IV.

In conducting the Summary Financial Management System Reviews, managers are to consider existing information they have at their disposal. Using that information, managers are to then determine whether their system or system component is operating as designed and complies with government-wide financial management system requirements. Following are the standards the financial management system is required to comply with:

1. OMB CIRCULAR A-127, *Financial Management Systems*. This circular is available electronically at <http://www.whitehouse.gov/omb/circulars/a127/a127.html>. The financial systems shall adhere to the requirements contained in Circular A-127. This Circular was updated by Transmittal Memorandum No. 3, dated December 1, 2004. This Transmittal Memorandum contains updated guidance to improve coordination among the operators of agency financial management systems, vendors of financial management software, E-Gov shared services, and the Department of Treasury. The revisions also incorporate the transfer of responsibilities from the Joint Financial Management Improvement Program (JFMIP) to the Chief Financial Officers Council (CFOC) and the OMB's Office of Federal Financial Management (OFFM).

Following are the A-127 requirements:

- a. Agency-wide Financial Information Classification Structure. The design of the financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger (SGL), provides for tracking of specific program expenditures, and covers financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is readily available and provided to internal managers at all levels within the organization. Financial management systems' designs shall support agency budget, accounting, and financial management reporting processes by providing consistent information for budget formulation, budget execution,

programmatic and financial management, performance measurement, and financial statement preparation.

- b. Integrated Financial Management Systems. Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have the following characteristics:

- Common Data Elements. Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., SGL) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.

- Common Transaction Processing. Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.

- Consistent Internal Controls. Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.

- Efficient Transaction Entry. Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once, and other parts of the system shall be updated through electronic means consistent with timing requirements of normal business/transaction cycles.

- c. Application of SGL at the Transaction Level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the SGL at the transaction level. Application of the SGL at the transaction level means that the financial management system will process transactions following the definition and defined uses of the general ledger accounts as described in the SGL. Compliance with this standard requires:

- Data in Financial Reports consistent with the SGL. Reports produced by the systems that provide financial information, whether used internally or externally, shall provide financial data that can be traced directly to the SGL accounts.

--Transactions Recorded Consistent with SGL Rules. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL.

--Supporting Transaction Detail for SGL Accounts Readily Available. Transaction detail supporting SGL accounts shall be available in the financial management systems and directly traceable to specific SGL account codes.

- d. Federal Accounting Standards. Agency financial management systems shall maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB and reporting requirements issued by the Director of OMB and/or the Secretary of the Treasury. Where no accounting standards have been recommended by FASAB and issued by the Director of OMB, the systems shall maintain data in accordance with the applicable accounting standards used by the agency for preparation of its financial statements. Agency financial management systems shall be designed flexibly to adapt to changes in accounting standards.

All 28 of the following Statements of Federal Financial Accounting Standards (SFFAS) have been recommended by the FASAB, and all have been accepted by the Congress and officially promulgated by OMB:

- SFFAS 1 -- Accounting for Selected Assets and Liabilities
- SFFAS 2 -- Accounting for Direct Loans and Loan Guarantees
- SFFAS 3 -- Accounting for Inventory and Related Property
- SFFAS 4 -- Managerial Cost Accounting Concepts and Standards
- SFFAS 5 -- Accounting for Liabilities of the Federal Government
- SFFAS 6 -- Accounting for Property, Plant, and Equipment
- SFFAS 7 -- Accounting for Revenue and Other Financing Sources
- SFFAS 8 -- Supplementary Stewardship Reporting
- SFFAS 9 -- Deferral of Implementation Date for SFFAS 4
- SFFAS 10 -- Accounting for Internal Use Software (amends SFFAS 6)
- SFFAS 11 -- Amendments to Accounting for PP&E – Definitions
(amends SFFAS Nos. 6 and 8)
- SFFAS 12 -- Recognition of Contingent Liabilities from Litigation (amends SFFAS 5)
- SFFAS 13 -- Deferral of Para 65.2 - Material Revenue-Related Transactions
(amends SFFAS 7)
- SFFAS 14 -- Amendments to Deferred Maintenance Reporting (amends SFFAS Nos. 6 and 8)
- SFFAS 15 -- Management's Discussion and Analysis
- SFFAS 16 -- Amendments to Accounting for PP&E - Multi-Use Heritage Assets (amends SFFAS Nos. 6 and 8)
- SFFAS 17 -- Accounting for Social Insurance

SFFAS 18 -- Amendments to Accounting Standards for Direct Loans and Loan Guarantees (amends SFFAS 2)

SFFAS 19 -- Technical Amendments to Accounting Standards for Direct Loans and Loans Guarantees (amends SFFAS 2)

SFFAS 20 -- Elimination of Certain Disclosures

SFFAS 21 -- Reporting Correction of Errors and Changes in Accounting Principles

SFFAS 22 -- Change in Certain Requirements for Reconciling Obligations and Net Costs of Operations

SFFAS 23 -- Eliminating the Category National Defense Property, Plant, and Equipment

SFFAS 24 -- Selected Standards for the Consolidated Financial Report of the United States

SFFAS 25 -- Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment

SFFAS 26 -- Presentation of Significant Assumptions for the Statement of Social Insurance

SFFAS 27 -- Identifying and Reporting Earmarked Funds

SFFAS 28 -- Deferral of the Effective Date of Reclassification of the Statement of Social Insurance (amends SFFAS Nos. 26 and 28)

The Statements of Federal Financial Accounting Standards are available electronically at <http://www.fasab.gov/standards.html> .

- e. Financial Reporting. The agency financial management system shall meet the following agency reporting requirements:

--Agency Financial Management Reporting. The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory, and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and, (6) monitor the financial management system to ensure the integrity of financial data.

--Performance Measures. Agency financial management systems shall be able to capture and produce financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management, and financial statement presentation. As new performance measures are established, agencies shall incorporate the necessary information and reporting requirements, as appropriate and feasible, into their financial management system.

f. Budget Reporting. Agency financial management systems shall enable the agency to prepare, execute and report on the agency's budget in accordance with the requirements of OMB Circular A-11, *Preparation and Submission of Budget Estimates*, updated by Transmittal Memorandum No. 78, dated July 16, 2004, and other circulars and bulletins issued by Office of Management and Budget. OMB Circular A-11 is available electronically at www.whitehouse.gov/omb/circulars/a11/04toc.html.

g. Functional Requirements. Agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements were previously defined in a series of publications entitled *Federal Financial Management Systems Requirements* issued by the Joint Financial Management Improvement Program (JFMIP). Functions of the JFMIP are currently being realigned with the CFOC, the OFFM, Federal Financial Systems Branch, and the Office of Personnel Management. Requirements issued by the JFMIP will remain in effect until further notification. Additional functional requirements may be established through OMB circulars and bulletins and the Treasury Financial Manual. Agencies are expected to expeditiously implement new functional requirements as they are established and/or made effective. The following Federal Financial Management System Requirements have been issued by the OFFM and JFMIP:

- Core Financial System Requirements – Currently issued as an Exposure Draft by the OFFM. Available electronically at http://www.whitehouse.gov/omb/financial/ffs/ffs_core_intro.html.
- Human Resources/Payroll System Requirements (April 1999)
- Travel System Requirements (July 1999)
- Seized/Forfeited Asset System Requirements (December 1999)
- Direct Loan System Requirements (June 1999)
- Guaranteed Loan System Requirements (March 2000)
- System Requirements for Managerial Cost Accounting (February 1998)
- Benefit System Requirements (September 2001)
- Grant Financial System Requirements (June 2000)
- Property Management System Requirements (October 2000)
- Inventory, Supplies, and Materials System Requirements (August 2003)
- Revenue System Requirements Document (January 2003)
- Acquisition Financial System Requirements (June 2002)

These JFMIP systems requirements are available electronically at <http://www.jfmip.gov/jfmip/systemrequirements.htm>.

h. Computer Security Act Requirements. For those financial management systems that contain "sensitive information" as defined by the Computer Security Act and the Government Information Security Reform Act (which primarily addresses the program management and evaluation aspects of

information security), agencies shall plan for and incorporate security controls in accordance with the Computer Security Act of 1987 and Circular A-130. This circular was updated by Transmittal Memorandum No. 4, dated November 28, 2004, and is available electronically at <http://www.whitehouse.gov/omb/circulars/a130/a130trans4.pdf>.

- i. Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the Federal Financial Management Systems Requirements documents issued by JFMIP or (b) other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as requirements documents, systems specifications, and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.
 - j. Internal Controls. The financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and, reliable data are obtained, maintained, and disclosed in reports. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system related controls form a portion of the management control structure required by OMB Circular A-123, revised December 21, 2004. OMB Circular A-123 is available electronically at http://www.whitehouse.gov/omb/circulars/a123/a123_rev.pdf.
 - k. Training and User Support. Adequate training and appropriate user support shall be provided to the users of the financial management systems, based on the level, responsibility and roles of individual users, to enable the users of the systems at all levels to understand, operate and maintain the system.
 - l. Maintenance. On-going maintenance of the financial management systems shall be performed to enable the systems to continue to operate in an effective and efficient manner. The agency shall periodically evaluate how effectively and efficiently the financial management systems support the agency's To further emphasize the adherence to these federal financial management system requirements, the President enacted the Federal Financial Management Improvement Act of 1996 (FFMIA). changing business practices and make appropriate modifications.
2. To further emphasize the adherence to these federal financial management system requirements, the President enacted the FFMIA.

DEPARTMENTAL ELEMENTS SUBJECT TO THE
MANAGEMENT CONTROL PROGRAM

The Departmental Elements listed below, including NNSA, are subject to the requirements of the Department's management control program contained in Attachments C, C-1, and C-2 of this guidance document.

Chief Information Officer
Civilian Radioactive Waste Management
Congressional and Intergovernmental Affairs
Contract Appeals
Counterintelligence
Economic Impact and Diversity
Electricity and Energy Assurance
Energy Efficiency and Renewable Energy
Energy Information Administration
Environment, Safety and Health
Environmental Management
Fossil Energy
General Counsel
Hearings and Appeals
Inspector General
Intelligence
Legacy Management
Management, Budget and Evaluation/Chief Financial Officer
Nuclear Energy, Science & Technology
Policy and International Affairs
Public Affairs
Security and Safety Performance Assurance
Science
Federal Energy Regulatory Commission
National Nuclear Security Administration

Chicago Operations Office
Consolidated Business Center
 -including Ohio Field Office
 -including Rocky Flats Environmental Technology Site
Idaho Operations Office
Oak Ridge Operations Office
Richland Operations Office
Savannah River Operations Office
NNSA Service Center
Golden Field Office
National Energy Technology Laboratory
Southeastern Power Administration
Southwestern Power Administration

Western Area Power Administration
Naval Petroleum Reserves – Casper
Pittsburgh Naval Reactors
Schenectady Naval Reactors
Strategic Petroleum Reserve Project Office
Office of River Protection

FY 2005 MANAGEMENT REPRESENTATION LETTER GUIDANCE

(Field Organizations, Including National Nuclear Security Administration)

The Government Management Reform Act of 1994 requires the Department to prepare and have audited Department-wide financial statements. In compliance with this Act, the Department will submit financial statements to KPMG through the Office of Inspector General (Inspector General) for audit. A critical step in the audit is to obtain a management representation letter from the Department's senior managers. The Department's final management representation letter will include detailed representations signed by the Department's Secretary, Chief Operating Officer, and the Chief Financial Officer.

To support the Department's process, Heads of Field Elements, including National Nuclear Security Administration, will prepare a Field Office management representation letter and submit it to the Lead Program Secretarial Officer and Department's Chief Financial Officer. At the same time, a copy will also be officially transmitted to the applicable Cognizant Secretarial Officer(s). In the management representation letter, individual Field Elements will provide assurances that all known liabilities have been disclosed and assets are fairly valued. The assertions will be based upon managerial knowledge of the respective financial information.

Field management representation letters are due to the Lead Program Secretarial Officer and Chief Financial Officer by October 14, 2005. These letters and separate assertions provided by Heads of Headquarters Elements will serve to support the final management representation letter submitted to KPMG through the Inspector General. Attachment D-1 contains guidance and a format for completing the Field Element's, including National Nuclear Security Administration, management representation letter.

If you have any questions on the representation letter process, call Theresa Ballinger of the Office of Program Liaison and Financial Analysis on 301-903-4128.

**INSTRUCTIONS FOR PREPARING
FIELD ELEMENT'S, INCLUDING NNSA,
MANAGEMENT REPRESENTATION LETTERS**

1. Heads of Field Elements should submit a management representation letter addressed to the Lead Program Secretarial Officer and the Department's Chief Financial Officer (CFO) by October 14, 2005. The letter to the Chief Financial Officer should be forwarded to the Chief Financial Officer Attention: Office of Program Liaison and Financial Analysis, ME-100, GTN, Rm C-176. A copy should be simultaneously provided to applicable Cognizant Secretarial Officer(s).
2. Field Element management representation letters and separate assertions provided by Heads of Headquarters Elements will serve to support the Department's management representation letter package submitted to KPMG through the Inspector General. The representation letter is an integral part of the financial statement audit. The attached sample letter is to be used as a starting point by Field Elements in preparing their letters and describes the types of representations that may be made by the Chief Operating Officer and the Chief Financial Officer to KPMG through the Inspector General. The final letter assists KPMG in forming an opinion on whether the Department's financial statements are presented fairly, in all material respects, in conformity with Federal accounting standards.
3. Field Element assertions will, to a large extent be based upon a detailed analysis of their respective financial statement accounts. This analysis should build upon the Financial Statement Analysis and Footnote Disclosure requirements issued separately by the Office of Financial Control and Reporting.
4. Power Marketing Administrations (PMAs) - As in the past, these organizations will not be required to issue a complete management representation letter. It is assumed these organizations will provide the cognizant auditor with all the necessary assertions for the PMA's FY 2005 financial statement audit. However, the PMAs will be required to issue several assertions to the Headquarters CFO on the data submitted for combination with the Department's financial activity and performance measurement information. Assertions listed below may be used as a starting point.

The information provided to the Office of the Chief Financial Officer by *Power Marketing Administration* and consolidated into the Department-wide financial activity presented in the Departmental financial statements accurately reflects the Department of Energy's portion of *Power Marketing Administration's* financial activity.

Power Marketing Administration acknowledges our responsibility for the fair presentation of the (financial) performance measure information presented in the Overview and Supplemental Information sections of the financial statements. *Power Marketing Administration* believes this data to be accurate and reliable.

5. Field Elements should include all applicable assertions included in the following Management Representation Letter Format. The format was developed from the Department's FY 2004 Management Representation Letter to KPMG, it is understood that not all representations are required from each field element and that field elements may be required to change assertions based on the events of the current fiscal year.

SAMPLE FIELD MANAGEMENT REPRESENTATION LETTER

MEMORANDUM FOR LEAD PROGRAM SECRETARIAL OFFICER
DEPARTMENT'S CHIEF FINANCIAL OFFICER

FROM: HEAD OF FIELD ELEMENT

SUBJECT: FY 2005 MANAGEMENT REPRESENTATION LETTER

Obtaining a representation regarding the fair presentation of the FIELD ELEMENT'S financial statements is a significant procedure in the audit of those statements. As Manager of the FIELD ELEMENT, I confirm that I am responsible for the fair presentation of the FIELD ELEMENT'S statements, in conformity with principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

In connection with your audit of the Department's consolidated financial statements as of September 30, 2005 and 2004, and for the years then ended, I confirm, to the best of my knowledge and belief, the following representations made to you and, where applicable, to KPMG:

1. The FIELD ELEMENT consolidated financial statements of the Department are fairly presented in accordance with the Office of Management and Budget (OMB) requirements and in conformity with accounting principles generally accepted in the United States of America.
2. FIELD ELEMENT has made available to you and to KPMG:
 - a. All financial records and related data.
 - b. If applicable, communications from OMB concerning noncompliance with or deficiencies in financial reporting practices, if applicable.
3. The FIELD ELEMENT is responsible for compliance with applicable laws and regulations and has disclosed all instances of noncompliance with laws and regulations. In addition, the FIELD ELEMENT is responsible for the identification of and compliance with all aspects of applicable laws, regulations, contracts, or grants that could have a direct and material effect on the determination of consolidated financial statement amounts in the event of noncompliance and has disclosed all instances of noncompliance with laws, regulations, contracts, or grants.
4. The FIELD ELEMENT has complied, in all material respects, with applicable laws, regulations, and contracts that could have a material effect on the consolidated financial statements in the event of noncompliance.

5. I acknowledge responsibility for the design and implementation of programs and controls to prevent and detect fraud. I understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements or performance results to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of the assets where the effect of the theft causes the consolidated financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.
6. Except as disclosed to you, there have been no known:
 - a. Instances of fraud, or suspected fraud, whether or not material, involving management or other employees who have a significant role in internal control, or others where the fraud could have a material effect on the financial statements.
 - b. Instances of fraud, or suspected fraud, involving others (e.g., recipients of Federal financial assistance or other Federal payments) that could have a material effect on the consolidated financial statements.
 - c. Allegations of fraud or suspected fraud affecting the Department received in communications from employees, former employees, or others.
 - d. Communications from other governmental entities or agencies (e.g., the U.S. Department of the Treasury) concerning noncompliance with, or deficiencies in, financial accounting practices.
 - e. Communications from regulatory or oversight agencies such as OMB and the Government Accountability Office (GAO), concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the consolidated financial statements.
 - f. Violations, or possible violations, of laws or regulations whose effect should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency, except for unresolved recommendations in prior Office of Inspector General and GAO audit reports, which have been considered in preparing the consolidated financial statements.
 - g. Violations or possible violations of specific requirements of contracts, grants, and budgetary procedures, the effects of which should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency.
 - h. Allegations, either written or oral, of misstatements or other misapplications of accounting principles in the FIELD ELEMENT consolidated financial statements.
 - i. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the FIELD ELEMENT consolidated financial statements.
 - j. Communications from the legal counsel reporting evidence of a material violation of law or breach of fiduciary duty or similar violation by the Department or any agent thereof.
 - k. False statements affecting the consolidated financial statements made to you, our Inspector

General, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.

7. Except as disclosed to you in writing, there are no known:
 - a. Unasserted claims or assessments that our General Counsel or the Department of Justice General Counsel has advised us are probable of assertion and must be disclosed in accordance with the Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, as amended.
 - b. Other liabilities or gain or loss contingencies that have not been accrued that are required to be accrued or disclosed by the Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, as amended.
 - c. Material transactions (e.g., obligations or commitments) or events that have not been properly recorded in the accounting records underlying the consolidated financial statements.
 - d. Events that have occurred subsequent to September 30, 2004, and through the date of this letter, that would require adjustments to or disclosure in the consolidated financial statements except for the following:
8. The Department indemnifies its management and operating contractors against financial responsibility from nuclear accidents, under the provisions of the Price-Anderson Act. Except to the extent otherwise disclosed in the Legal Representation Letter and in the Non-Monetary Loss Contingency Report submitted to the Inspector General by the Department's program offices, I am aware of no liabilities or loss contingencies resulting from this indemnification.
9. The following have been properly recorded or disclosed in the consolidated financial statements:
 - a. Purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
 - b. Changes in accounting principles affecting consistency.
 - c. Agreements to repurchase assets previously sold including sales with recourse.
 - d. Joint ventures.
 - e. Guarantees, whether written or oral, under which the Department is contingently liable.
 - f. Commitments for purchases of services or assets at prices involving material probable losses.
 - g. Losses to be sustained as a result of other than temporary declines in the fair value of investments.
 - h. Losses to be sustained in the fulfillment of, or from the inability to fulfill, any sales commitments.

10. Except as noted, there are no significant deficiencies in the design or operation of internal controls which could adversely affect the Department's ability to record, process, summarize and report financial data, and we have identified no material weaknesses in internal controls. In our Federal Managers' Financial Integrity Act (FMFIA) of 1982 assurance statement, I disclosed to you all significant deficiencies in the design or operation of internal controls which could adversely affect the Department's ability to process, summarize, and report financial data and identified no material weaknesses in internal control. We interpret "significant deficiencies in the design or operation of internal controls" to be consistent with the concept of a "reportable condition" defined under standards established by the American Institute of Certified Public Accountants. Such standards define a "reportable condition" as a significant deficiency in the design or operation of internal control that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. I understand that the term "material weakness in internal control" is a reportable condition for which the design or operation of one or more internal control components does not reduce to a relatively low-level risk that errors or fraud in amounts that could be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
11. The FIELD ELEMENT has identified and properly accounted for all nonexchange transactions.
12. Except as disclosed in the consolidated financial statements, the Department has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities. I have disclosed in the footnotes to the consolidated financial statements that future decisions, including but not limited to changes in environmental cleanup standards or remediation technologies, decisions to dispose of nuclear materials, revisions in land use or waste disposal assumptions, or reductions in Federal Government spending, could have a material effect on environmental remediation liabilities. The Department will ascertain the impact on the environmental remediation liabilities once we have some assurance that a policy, decision, or assumption is likely to be altered and make any necessary adjustments or disclosures in future consolidated financial statements.
13. Inventories and materials are stated at historical cost in accordance with Statement of Federal Financial Accounting Standards No. 3, *Accounting for Inventory and Related Property*, except where valuation at net realizable value is authorized by the Statement. Exceptions include (1) stockpile materials that management has determined have permanently declined in value below cost or are damaged or decayed; (2) excess, obsolete, or unserviceable items; and (3) petroleum produced for sale at the Department's Naval Petroleum Reserve. Where feasible, physical counts and measurements of inventories and operating materials were made, and records were appropriately adjusted to reflect the physical inventories. The Department's inventory of nuclear materials is valued at standard transfer value, which approximates historical cost, except for certain nuclear materials that have been identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value. Costs associated with the stockpile life extension program and the tritium production program have been capitalized into inventory in accordance with the provisions of Chapters 9 and 15 of the Department's Accounting Handbook.

14. I believe that the carrying amounts of all material assets are recoverable. We understand that with respect to the majority of the Department's assets, including nuclear materials and plant and equipment, the term "recoverable" does not imply that the Department can or would recoup the assets' carrying values by selling them, but that the assets are fulfilling their intended purposes and that their serviceability has not been impaired or that any material impairments are reflected in reduced carrying values for the assets.
15. The FIELD ELEMENT has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor have any assets been pledged as collateral. The Department has commitments to the United States Enrichment Corporation under the lease for the Gaseous Diffusion Facility at Paducah, KY.
16. The FIELD ELEMENT has not, directly or indirectly, including through a component entity, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit in the form of a personal loan to or for any management member of the Department.
17. The FIELD ELEMENT has properly accounted for all property, plant, and equipment sold, destroyed, abandoned, or considered to be obsolete and have no further use. The FIELD ELEMENT has also properly accounted for property, plant, and equipment predominately used in environmental remediation activities.
18. All capital assets are properly categorized as either work-in-progress or completed projects as required in the Department's policy. Further, all capital assets are properly capitalized and, if applicable, depreciated.
19. The FIELD ELEMENT and its contractors have properly accounted for all internal use software that is used to operate programs and produce goods and services, as required, by Statement of Federal Financial Accounting Standards No. 10, *Accounting for Internal Use Software*. Capitalized internal use software costs are limited to those costs incurred after the completion of conceptual formulation, design, and testing of possible software project alterations. The FIELD ELEMENT and its contractors have capitalized labor costs for employees that worked on software development projects for a substantial portion of time.
20. The FIELD ELEMENT has performed the necessary procedural requirements to develop and support the deferred maintenance estimate reported in the disclosure required by Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, as amended. All estimates developed for purposes of reporting the FIELD ELEMENT's deferred maintenance levels were developed in accordance with Departmental guidance. These estimates are properly documented and readily verifiable.
21. Provisions, when material, have been made:
 - a. To reduce excess, obsolete, damaged, or unusable inventories to their estimated net realizable value. For example, the FIELD ELEMENT has analyzed all of its nuclear materials and identified all such materials that are excess to the FIELD ELEMENT's needs and recorded appropriate allowances to record such inventories at net realizable value.

- b. For any material adjustments of long lived assets as a result of permanent impairment, in accordance with Statement of Federal Financial Accounting Standards No. 6, *Accounting for Property, Plant, and Equipment*, as amended.
- 22. Receivables reported in the consolidated financial statements represent valid claims for sales or other charges arising on or before the balance sheet date, and have been appropriately reduced to their estimated fair value.
- 23. Related party transactions and related accounts receivable or payable, including revenues, expenditures, loans, transfers, leasing arrangements, assessments, and guarantees have been properly recorded and disclosed in the (consolidated) financial statements. A related party is an entity that can significantly influence the management or operating policies of the transacting parties or can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.
- 24. During the years ended September 30, 2005 and 2004, the FIELD ELEMENT did not exceed its approved budgetary authorities.
- 25. All significant estimates, uncertainties, and material concentrations of risk known to management have been properly recorded and/or disclosed in the consolidated financial statements. Significant estimates are as of the balance sheet date, and could change materially within the next year. Concentrations refer to volumes of reimbursable work, revenues, or available sources of supply, for which it is reasonably possible that events could occur which would significantly disrupt normal operations or financing sources within the next year.
- 26. All sales transactions entered into by the FIELD ELEMENT are final and there are no side agreements with customers, or other terms in effect, which allow for the return of items sold, except for defects or other conditions covered by the usual and customary warranties.
- 27. I believe that the actuarial assumptions and methods used to measure actuarial liabilities and costs for financial accounting purposes are appropriate in the circumstances.
- 28. I have provided background and detailed cost information for all environmental liabilities identified to date, as well as information regarding pending, threatened, or unasserted claims related to the environmental project sites identified. Provisions have been made for any material loss that is probable from remedial liabilities associated with Department-owned properties. Recorded environmental remediation liabilities are based on the Department's best and most recent estimates of the expected costs, stated in fiscal year 2004 dollars, to remediate legacy facilities and contaminated sites managed by the Office of Environmental Management (EM), perform long-term post-remediation stewardship activities; remediate active and surplus facilities managed by other programs, dispose of high-level waste and spent nuclear fuel, and dispose of surplus nuclear materials. I believe that such estimates are reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been described adequately in the consolidated financial statements and related footnotes. The environmental remediation liability includes adequate provisions for costs to dispose of all nuclear materials whose disposition as waste is probable (more likely than not) as defined by Statement of Federal Financial Accounting Standards No. 5, *Accounting for Liabilities of the Federal Government*, as amended.

29. The environmental remediation liability for facilities and sites managed by EM (EM liability) is based upon an accelerated cleanup approach. Achievement of accelerated cleanup goals is largely contingent upon receipt of anticipated funding. I believe the funding assumptions are reasonable.
30. The assumptions in the EM cost estimates with respect to shipments of high-level waste and spent nuclear fuel to a geologic repository are based upon reasonable expectations as to repository availability and waste acceptance criteria. EM is working with the Office of Civilian Radioactive Waste Management to ensure that the repository's waste acceptance criteria include the waste forms assumed in EM's cost estimates, and we believe that these efforts will be successful.
31. I agree with the findings of specialists preparing cost estimates for environmental remediation projects, measuring employee retirement and postretirement benefit obligations, and measuring and sampling inventories of nuclear materials, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. I did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
32. The liability for spent nuclear fuel litigation is based upon reasonable expectations as to repository availability and the rate of waste acceptance. The specific details pertaining to the model used to estimate the liability have not been disclosed to you as the information is protected by attorney-client privilege. However, I represent to you that the model takes into consideration all utility companies who have entered into a waste acceptance contract with the Department. The model has been assessed to ensure that the model's various factors reflect current conditions as of September 30, 2005.
33. Costs have been recorded in accordance with the Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. Indirect costs were allocated to the General Goals in an equitable manner.
34. Pursuant to the FMFIA, I have assessed the effectiveness of the Department's internal control in achieving the following objectives:
 - a. Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;
 - b. Compliance with applicable laws and regulations - transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements, and (ii) any other laws and regulations and government-wide policies that OMB, the Department's management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated.

35. Except as disclosed, all internal controls are operated in accordance with applicable policies and procedures and are effective in meeting the FMFIA objectives set forth above.
36. I have assessed the financial management systems to determine whether they comply substantially with Federal financial management systems requirements. Our assessment was based on guidance issued by OMB.
37. The financial management systems complied substantially with Federal financial management systems requirements, accounting standards applicable to Federal entities, and the Standard General Ledger at the transaction level as of September 30, 2005.
38. The FIELD ELEMENT has properly accounted for all liabilities and commitments associated with the cessation of Portsmouth Gaseous Diffusion Plant (PGDP) operations by USEC and the Department's subsequent placement of the PGDP into cold standby. Material commitments are properly disclosed in the financial statements.
39. In accordance with Government Auditing Standards, I have identified to you the significant findings and recommendations from previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit and have accurately communicated to you the related corrective actions taken to address the findings.

RESEARCH AND DEVELOPMENT DATA

(Headquarters Departmental Elements, Including National Nuclear Security Administration and
Bonneville Power Administration)

This attachment contains the requirements and instructions for reporting on research and development (R&D) data efforts. The Statement of Federal Accounting Standard Number 8, *Supplementary Stewardship Reporting - Chapter 7* "Research and Development," requires the Department to report R&D information in the annual Accountability Report. This Standard requires Federal agencies to report on R&D costs in the supplementary data included with the audited financial statements.

Investment in R&D refers to those expenses incurred to support the search for new or refined knowledge and ideas. It also refers to the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. Research and development is composed of the following three categories: Basic, Applied, and Development.

The format for submitting this data is included as Attachment E-1. Attachment E-2 is a list of programs that reported R&D activities last year. This information is to be used as a starting point when preparing your submission.

Specific steps for the submission are included below:

Step 1: Complete attachment E-1 for each of your R&D programs. In some cases organizations may have to include percentages for those Program Budget and Reporting Codes (B&Rs) that are not 100 percent R&D and for those B&Rs that are split among the three categories of R&D. This attachment will be used to formulate the Performance and Accountability Report R&D information. Once consolidated, the R&D Report will be issued in draft to all applicable program organizations for review. The final report will be included in the FY 2005 PAR. As done in the past to facilitate the audit opinion in accordance with the aggressive OMB deadlines, a 3rd Quarter draft of this report will also be issued with increased emphasis on the accuracy of that draft. The auditors will be reviewing and testing in detail, the data included in the 3rd Quarter draft.

The definitions for basic, applied and development R&D included in the SFFAS No. 8 are identical to the definitions contained in OMB circular A-11, *Preparation and Submission of Budget Estimates*. If you need copies of these definitions, please contact Donna Taylor on 301-903-3075. Please ensure that you indicate in Attachment E-1, the categories of research, and the percentage if necessary.

Step 2: Please submit all R&D information to the Office of Program Liaison and Financial Analysis (ME-100), Donna Taylor (301-903-3075, fax 301-903-2550), Room C-180, Germantown by June 17, 2005.

Step 3: THANK YOU VERY MUCH FOR YOUR COOPERATION. Any questions regarding the Research and Development Supplementary Stewardship Reporting information should be directed to Theresa Ballinger (301-903-4128) or Donna Taylor (301-903-3075).

RESEARCH AND DEVELOPMENT
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
For Fiscal Year Ending September 30, 2005

SUBMITTING OFFICE: _____

APPROPRIATION: _____

PROGRAM: _____

Research and Development B&Rs	Category of R&D & Percentage if Necessary (Applied, Basic, Development)

Continue for each appropriation and program as necessary to address all R&D programs in your organization.

CONTACT NAME & NUMBER: _____

RESEARCH AND DEVELOPMENT PROGRAMS

Bonneville Power Administration

Energy Efficiency and Renewable Energy

Conservation R&D

Solar and Renewable Energy

Science

Basic Energy Sciences

Biological and Environmental Research

Computational and Technology Research

Fusion Energy

Energy Research Analyses

Small Business Innovation Research

University and Science Education

High Energy Physics

Nuclear Physics

Environmental Management

Fossil Energy

Fossil Energy R&D (coal, oil, gas, coop)

Clean Coal Technology

NNSA

Defense Programs

Weapons Activities

Nonproliferation and National Security

Nonproliferation and Verification R&D

Fissile Materials Disposition

Naval Reactors

Office of Intelligence

Nuclear Energy

Nuclear Energy R&D

Civilian Radioactive Waste Management

Office of Security

Energy Assurance

Electronic Transmission and Distribution